

**CITY OF BELLEVUE
ENVIRONMENTAL SERVICES COMMISSION
MEETING MINUTES**

Thursday
November 1, 2012
6:30 p.m.

Conference Room 1E-113
Bellevue City Hall
Bellevue, Washington

COMMISSIONERS PRESENT: Chair Helland; Commissioners Cowan, Mach, Morin Swenson, Weller

COMMISSIONERS ABSENT: Wang

OTHERS PRESENT: Wes Jorgenson, Lucy Liu, Bob Brooks, Councilmember Stokes¹, Bob Mulvey

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

The meeting was called to order by Chair Helland at 6:30 p.m.

2. ORAL COMMUNICATIONS:

Councilmember Stokes gave an update on how the City is moving forward with the Phantom Lake situation. The hope is to facilitate discussion regarding a plan and to try to get this resolved. Any agreement will have to go before the Council. Staff is very supportive. He expressed appreciation for the work the ESC and other boards and commissions have done.

3. INTRODUCE NEW DEPUTY DIRECTOR – UTILITIES DEPARTMENT

Assistant Director Jorgenson introduced the new Deputy Director for Utilities, Bob Mulvey. Mr. Mulvey reviewed his background and stated he was very pleased to be here.

4. APPROVAL OF AGENDA

Motion made by Commissioner Swenson, seconded by Commissioner Morin, to approve the agenda. Motion passed unanimously (6-0).

¹ Councilmember Stokes left the meeting at 7:36.

5. REVIEW 2013-2014 UTILITIES PROPOSED BUDGET & RATES – MEMO

- **Utilities Budget Public Hearing**
- **Invite Public Comments**
- **Finalize Recommendation**

Lucy Liu and Bob Brooks gave an overview of the proposed budget, reviewed proposed rates and customer impacts.

Ms. Liu explained that the 2013-2014 Budget is not a status quo budget; it contains some significant cost containments which are a necessary response to increases in key cost drivers. The budget is driven by external costs (wholesale costs, taxes, and other financial obligations) and internal costs (capital investments and operational costs). The City is facing cost pressures in all of these areas. She reviewed specifics about the increased costs and rate impacts in each of the areas.

Ms. Liu continued to explain that a significant new budget challenge that Utilities is facing in the 2013-2014 Budget is declining water demand which has created a revenue shortfall. In response, staff has reset revenue projections and is proposing a one-time rate adjustment in order to reflect the fixed nature of wholesale water costs. In addition to the decline in water demand, Utilities is also facing other new costs. An example of this is the new NPDES permit. The cost in the 2013-2014 Budget only addresses the early implementation. Staff's goal is to limit rate increases by taking cost containment measures where feasible, including the elimination of four FTE positions.

Commissioner Morin asked a clarifying question about how Utilities purchases water. Mr. Brooks explained how this works. Assistant Director Jorgenson noted that the current block goes to 2025 and then declines over the next 20 years or so when the City would theoretically have its own supply at Lake Tapps.

Mr. Brooks explained that despite the cost containments, there is also a need for rate increases. He reviewed the impact of the proposed increases on a typical single-family residential monthly water bill. In 2013, the proposed total increase would be 12.2% increase (or \$5.47). In 2014 the total increase would be 7.6% (or \$3.79).

Chair Helland asked why the one-time wholesale cost adjustment was just in one year. Mr. Brooks explained that the bulk of it is in one year because staff is trying to make up the difference relatively quickly. If we don't, we will be below the minimum reserve level which will trigger an automatic rate increase per the financial policies. Chair Helland asked if this amount is the minimum that is required to stay above the minimum reserve level. Mr. Brooks replied that that would put us back toward the target level. It is the amount staff has calculated to

correct for the take-or-pay contract issue that has not been addressed in past years. Chair Helland asked about calculating to hit the minimum reserve level this year and then hit the target level next year. Mr. Brooks explained that it would be a much more significant increase if they did it that way because of the cumulative effect of the rate increase. Councilmember Stokes suggested that staff be prepared to provide more information about this question when they go before the Council.

Commissioner Morin asked if there are related savings on processing wastewater due to the decrease in water consumption. Mr. Brooks replied that there is some relationship, but those budgets are completely separate.

The proposed rate increases were reviewed. These increases amount to a 10.1% (\$12.45) overall increase in 2013 and 5.9% (\$8.06) in 2014 for an average single family total monthly bill. Mr. Brooks noted that Bellevue's rates in 2012 were very competitive relative to its neighbors. Because of Bellevue's policies regarding R&R, the expectation is that in the future Bellevue will be significantly more competitive as other utilities have to either issue debt or raise rates to cover their replacement needs.

Potential actions to reduce the local share of the rate increase to CPI include:

- Delay water AC Main ramp-up
- Don't fund sewer extensions
- Defer Sewer R&R contributions
- Defer increases for M&I Initiative
- Defer Storm R&R contributions.

Mr. Brooks explained that staff is not recommending that any of these cuts be taken as they are not sustainable and there would be customer service impacts.

Chair Helland asked about the costs associated with the cuts. Mr. Brooks explained that it would depend on which cuts were taken. Each would have different impacts. Assistant Director Jorgenson said there are two projects that do not have significant expenses associated with delaying them. Those are the sewer extensions and the M&I. The other three projects have significant implications.

Commissioner Morin recommended presenting these options to Council in a form that clearly shows the implications of each cut. Assistant Director Jorgenson encouraged the ESC to do that if they feel strongly about that. Chair Helland pointed out the ability of the ESC to stress the priorities and the downside in the presentation to the Council.

The public hearing was opened at 7:12 p.m.

Public Testimony: [See separate verbatim transcript of Public Comments]

David Plummer, 14414 NE 14th Place, Bellevue addressed the proposed budget and rates. He expressed concern about the lack of adequate information available to the public in a timely manner. He believes this hearing should be rescheduled to a later date so the public can have a reasonable amount of time to review the material. He urged that the rates and the budgets be reduced and some proposed projects be eliminated. Finally, it would be helpful if the public is provided information about how the ratepayers will be reimbursed for some of the costs of the acquisitions of the projects.

Seeing no further public comments, the public hearing was closed at 7:19 p.m.

Discussion:

Randy Cowan recommended reconsidering the proposed cuts to conservation programs.

Commissioner Swenson expressed concern about jeopardizing the City's ability to be ready for opportunities if increases for the M&I initiative are deferred. He stressed the importance of being able to take advantage of economic opportunities when they are presented. There was discussion about the details of the M&I Initiative. In a situation where there is an opportunity, but the City is not ready, Mr. Brooks stated that they would be able to borrow from R&R. Assistant Director Jorgenson added that, similarly, R&R could be used to address sewer extension issues if necessary, especially if there were health concerns involved. He expressed concern about setting the precedent of using the R&R for loans and the possibility of the R&R funds being used as a bank instead of its actual purpose.

Assistant Director Jorgenson summarized that there seemed to be general consensus regarding the sewer extension and the M&I if additional cuts need to be made, but the ESC would be opposed to any of the other cuts.

Commissioner Mach spoke in support of just going ahead and cutting the sewer extension. There was consensus to take this option to Council and let them decide.

Chair Helland said he would also like to see information included to the Council about the cost implications of making each cut. He suggested that the ESC summarize their recommendations as following:

1. Don't fund sewer extensions
2. Defer increases for M&I initiatives
3. Delaying Water AC main ramp up should be the last possible action on the list

Commissioner Cowan asked why the cuts to conservation were proposed early in the budget process when some of these other items were not. Assistant Director Jorgenson explained that the declining revenue due to declining usage is what is driving the rates up. He acknowledged that it is a struggle balancing the business model with conservation. Commissioner Cowan stated that he thinks conservation works well and he really supports it.

Assistant Director Jorgenson stated that if the Commission wanted to, they could recommend that the conservation and outreach programs not be cut.

Commissioner Swenson added that he does not think the conservation objectives have been met because the quality of Puget Sound continues to deteriorate. Chair Helland asked about applying for grants and alternative sources of funding for those programs. Ms. Liu stated that staff already explores grants and alternative funding options. Commissioner Cowan expressed support for continuing the conservation programs.

Chair Helland expressed support for spreading the wholesale cost adjustment more evenly over two years rather than just in a single year. There was discussion about how the City shoots for the targets and the implications of not meeting those targets.

Ms. Liu explained that the average bill would go up approximately 15 cents a month if the FTEs for the Water Conservation and Storm & Surface Water Pollution Prevention programs were restored. Water would go up approximately .2%. Storm would go up approximately .25%.

Commissioner Weller asked about other options for conservation programs. Assistant Director Jorgenson noted that the City still has conservation efforts going on. Bellevue will also be deferring to Cascade to do some of those efforts.

Chair Helland said he would endorse a budget that had the FTEs for the Water Conservation and Storm & Surface Water Pollution Prevention programs included back in it. He clarified that the Commission would still support the reduction of the other FTE in conservation for Solid Waste, Waste Prevention & Recycling. There was a majority of support for this action. Commissioner Weller spoke against maintaining the conservation programs. He thinks that there are other ways that conservation efforts can be achieved.

Motion made by Commissioner Cowan, seconded by Commissioner Swenson, to recommend restoring FTEs for the Water Conservation and Storm and Surface Water Pollution Prevention programs to the budget. Motion carried (5-1).

Commissioner Mach suggested putting conservation as an option on the list of cuts. Assistant Director Jorgenson said it would be listed specifically as a recommendation from the ESC.

Proposed Water Rate Increases and Impact on Typical Residential Bill

Chair Helland expressed a desire to more evenly distribute the wholesale costs over the two years to the degree that it is possible. Commissioner Swenson asked if changing the rate increase numbers would cause the actual amounts of the bills to be more unbalanced. Staff agreed that this would create a larger increase in 2014 than is currently proposed.

Chair Helland recommended that the wholesale cost adjustment be spread more evenly over two years. After some discussion, there was consensus to leave the Proposed Water Rate Increases and Impact on Typical Residential Bill as presented.

Motion made by Commissioner Weller, seconded by Commissioner Morin, to support the rate proposals with the exception of the reduction of FTEs in Water Conservation and Storm and Surface Water Pollution Prevention. The ESC did not support the five additional cost reduction alternatives. Should Council wish to consider these options, the Commission ranked these in the following order from least to most objectionable:

- 1. Don't fund sewer extensions**
- 2. Defer funding of MDI Initiative**
- 3. Defer Storm R&R contributions**
- 4. Defer Sewer R&R contributions**
- 5. Defer AC Main Ramp-up**

The ESC Motion passed unanimously (6-0).

6. APPROVAL OF MINUTES

October 4, 2012 Regular Meeting Minutes

Commissioner Cowan stated that the minutes should be corrected to indicate that he was not present at the October 4 meeting.

Commissioner Morin noted that the minutes should reflect that he was at the meeting. Also, Commissioner Morin pointed out that he had been referred to as *Councilmember* Morin on page 8.

Chair Helland referred to the second to last paragraph on page 11 and recommended that his comments be revised to read: "*Chair Helland noted that ~~he would even consider~~ is the only one that made sense to him would be the sewer extension option.*"

Commissioner Morin referred to the first paragraph at the top of page 11 and recommended changing the wording to “One alternative” and “Another alternative” instead of “strategy” to more accurately recommend what the ESC intended.

Motion made by Commissioner Morin seconded by Commissioner Swenson to approve the minutes. Motion passed unanimously (6-0) as presented.

7. FOLLOW-UP QUESTIONS/ANSWERS

The information in the packet which addressed Commissioner Wang’s question about somebody’s assertion that the water revenues had actually gone up was reviewed. As a result of declining sales volumes, water service revenues have declined over the past seven years absent rate increases. Mr. Brooks explained that if you took the rate increase out of the picture, the revenue would go down. Even with rate increases, water service revenues have not kept pace with increases in expenses.

Commissioner Swenson commented that the presentation from Cascade at the meeting a few months ago was fascinating. He recommended that the presentation be provided to the ESC since several members were absent at that meeting.

Commissioner Cowan requested details about the amount and related cost of water that is typically purchased but unused in Bellevue.

8. REPORTS AND SUMMARIES

a. ESC Calendar/Council Calendar

Assistant Director Jorgenson noted that the December meeting is rather full so the schedule will probably be adjusted. He then pointed out that the management brief regarding the winter weather preparedness was included in the ESC packet. There was consensus among the Commission that the management brief regarding winter preparedness is sufficient and the staff presentation will not be necessary at all.

9. NEW BUSINESS - None

10. DIRECTOR’S OFFICE REPORT

Assistant Director Jorgenson expressed appreciation to the Commission for his time working with them. He explained that the December meeting will be his last meeting with the ESC as Deputy Director Mulvey will be taking his place after that.

Chair Helland recommended having a discussion at some point about the cost of contracting services versus doing them in-house.

11. CONTINUED ORAL COMMUNICATIONS - None

12. EXECUTIVE SESSION - None

13. ADJOURNMENT

The meeting was adjourned at 8:47 p.m.